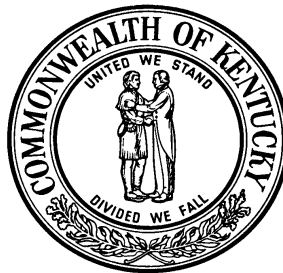


**REPORT OF THE AUDIT OF THE
FORMER WAYNE COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WAYNE COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Wayne County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$12,565 from the prior year, resulting in excess fees of \$143,726 as of December 31, 2006. Revenues increased by \$39,297 from the prior year and expenditures increased by \$26,732.

Debt Obligations:

Capital lease principal obligation totaled \$5,478 as of December 31, 2006.

Report Comments:

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- The Former County Clerk Should Have Monitored The Budget And Made Amendments As Necessary
- Retirement Should Have Been Withheld From Each Employee's Creditable Compensation

Deposits:

The former County Clerk's deposits as of April 6, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$58,845

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Rankin, Wayne County Judge/Executive
The Honorable Carol Jones, Former Wayne County Clerk
The Honorable Melissa Turpin, Wayne County Clerk
Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Wayne County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2007 on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Rankin, Wayne County Judge/Executive
The Honorable Carol Jones, Former Wayne County Clerk
The Honorable Melissa Turpin, Wayne County Clerk
Members of the Wayne County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- The Former County Clerk Should Have Monitored The Budget And Made Amendments As Necessary
- Retirement Should Have Been Withheld From Each Employee's Creditable Compensation

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Wayne County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 31, 2007

WAYNE COUNTY
CAROL JONES, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	8,919
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Fiscal Court		8,411
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	505,147
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Usage Tax		948,052
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Tangible Personal Property Tax		1,150,563
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Lien Fees		5,763
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Other-

Marriage Licenses		6,831
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Occupational Licenses		1,191
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Notarization Fees		9,988
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Recycling Fees		152
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Deed Transfer Tax		52,473
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Delinquent Tax	86,944	2,767,104
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		19,348
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Real Estate Mortgages		32,074
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Chattel Mortgages and Financing Statements		62,550
--	--	--------

Powers of Attorney		1,692
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All Other Recordings		25,058
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Charges for Other Services-

Candidate Filing Fees		2,450
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Copywork	4,869	148,041
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Other:

Service Charges		115
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Miscellaneous	2,763	2,878
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Interest Earned		1,307
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Total Revenues		2,936,660
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The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
 CAROL JONES, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 389,736

Usage Tax 919,610

Tangible Personal Property Tax 430,736

Licenses, Taxes, and Fees-

Delinquent Tax 11,486

Legal Process Tax 18,265

Affordable Housing Trust Fund 9,222 \$ 1,779,055

Payments to Fiscal Court:

Tangible Personal Property Tax 89,570

Delinquent Tax 9,545

Deed Transfer Tax 49,849

Occupational Licenses 1,031 149,995

Payments to Other Districts:

Tangible Personal Property Tax 584,646

Delinquent Tax 42,818 627,464

Payments to Sheriff

1,553

Payments to County Attorney

12,553

Operating Expenditures:

Personnel Services-

Deputies' Salaries 130,628

Contracted Services-

Printing and Binding 4,060

Indexing and Maintenance 2,400

Materials and Supplies-

Office Supplies 735

Other Charges-

Conventions and Travel 1,765

Dues 500

Postage 48

Miscellaneous 2,475 142,611

Debt Service:

Lease Purchase 3,460

Total Expenditures

2,716,691

The accompanying notes are an integral part of this financial statement.

FORMER WAYNE COUNTY
 CAROL JONES, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Net Revenues		\$	219,969
Less: Statutory Maximum			<u>69,341</u>
Excess Fees			150,628
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,302</u>	<u>6,902</u>
Excess Fees Due County for 2006			143,726
Payments to Fiscal Court -March 5, 2007			<u>143,726</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WAYNE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 6, 2006, \$58,845 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized \$ 58,845

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$288 for 60 months to be completed on July 13, 2008. The total balance of the agreement was \$5,478 as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Rankin, Former Wayne County Judge/Executive
The Honorable Carol Jones, Former Wayne County Clerk
The Honorable Melissa Turpin, Wayne County Clerk
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Wayne County Clerk for the year ended December 31, 2006, and have issued our report thereon dated July 31, 2007. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Wayne County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Wayne County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Wayne County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Wayne County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Monitored The Budget And Made Amendments As Necessary
- Retirement Should Have Been Withheld From Each Employee's Creditable Compensation

The former Wayne County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 31, 2007

COMMENTS AND RECOMMENDATIONS

WAYNE COUNTY
CAROL JONES, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Former County Clerk's Office Lacked Adequate Segregation Of Duties

During our review of internal controls, we noted that the former County Clerk's office lacked adequate segregation of duties over receipts and disbursements. The former County Clerk or her bookkeeper collected money, prepared the deposit, and agreed the deposit amount to the daily checkout sheet. Authorized check signers were not independent of the purchasing and receiving functions. There was not a second review of expenditures by another individual to ensure accuracy and completeness. Employees who participated in the receipt and disbursement of cash prepared bank reconciliations. Therefore, the control deficiency noted above is a significant deficiency and material weakness. The former County Clerk should have implemented the internal control procedures and compensating controls noted below to offset this internal control weakness.

- The former County Clerk should have documented surprise cash counts when performed.
- The former County Clerk should have recounted the daily bank deposit prepared by another employee and compared the deposit to the daily checkout sheet. Any differences should have been reconciled. She could have documented this by initialing the bank deposit and daily checkout sheet.
- Two people, with one being the former County Clerk, should have signed all checks.
- The former County Clerk should have examined payroll checks prepared by another employee and distributed checks to employees.
- The former County Clerk should have examined checks prepared by another employee and compared invoices or monthly reports to payments. She could have documented this by initialing the invoices and the monthly reports.
- The former County Clerk should have reviewed the bank reconciliation prepared by another employee and compared the balance to the balance in the checkbook. Any differences should have been reconciled. The former County Clerk could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former County Clerk's Response: Small Staff.

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Have Monitored The Budget And Made Amendments As Necessary

The former County Clerk did not monitor the budget to ensure that expenditures during the year were within the approved budget. The former County Clerk overspent the budget by \$395,419. The former County Clerk should have monitored the budget and made amendments to the budget as necessary.

Former County Clerk's Response: Unusual large purchase of tax bills. Did not know I could amend prior year.

WAYNE COUNTY
CAROL JONES, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

Retirement Should Have Been Withheld From Each Employee's Creditable Compensation

During testing of payroll, it was noted that retirement was not withheld from former County Clerk's office employees' additional vacation and sick pay received during the year. The Fiscal Court is responsible for payroll preparation. Upon review of prior year, it was noted that at year-end if county employees have unused vacation or sick leave, they have the option to receive a lump sum payment. Retirement is not being withheld from the lump sum payments. Per KRS 78.610(1), each employee shall, commencing on August 1, 1990, contribute, for each pay period for which he receives compensation, five percent (5%) of his creditable compensation unless he did not elect membership pursuant to KRS 61.545(3). The former County Clerk should have monitored the payroll for the Clerk's office employees to ensure that withholdings were proper and accurate.

Former County Clerk's Response: I would have corrected if I had known.

